Canadian Pacific Investments Limited

Annual Report 1968

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Investments
Limited

eting of Shareholders

g of the Shareholders of Canadian .imited will be held on Monday, e Château Champlain, Place du 11:00 A.M., Eastern Daylight Saving Time, for the following purposes:

a. to receive and, if deemed fit, approve the Report of the Directors, accompanying Consolidated Financial Statements and Report of the Auditors thereon, for the year ended December 31st, 1968;

b. to consider and, if deemed fit, to confirm By-law No. 10, enacted by the Board of Directors on June 7th, 1968, being a By-law amending General By-law No. 1, as set forth in summary form in the Information Circular;

c. to elect Directors;

d. to appoint Auditors and to authorize the Board of Directors to fix their remuneration; and

e. to transact such other business as may properly come before the meeting.

By order of the Board,
J. C. AMES, Secretary.

Montreal, March 7th, 1969.

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Left: A drilling rig, using a slim-hole drilling technique, explores Canadian Pacific Oil and Gas holdings east of the Mackenzie River delta in the Canadian Arctic.

Board of Directors and Officers

Directors

* W. A. Arbuckle, *Chairman of the Canadian Board,* The Standard Life Assurance Company, Montreal
* A. M. Campbell, *President,* Sun Life Assurance Company of Canada, Montreal
* N. R. Crump, *Chairman and Chief Executive Officer,* Canadian Pacific Railway Company, Montreal

R. Hendricks, *President,* Cominco Ltd., Montreal

S. E. Nixon, *Executive Vice-President,* Dominion Securities Corporation Limited, Montreal

The Hon. Duff Roblin, P.C., *Executive Vice-President,* Canadian Pacific Investments Limited, Montreal

* Ian D. Sinclair, *President,* Canadian Pacific Railway Company, Montreal
* F. V. Stone, *President and Chief Executive Officer,* Canadian Pacific Investments Limited, Montreal

G. J. van den Berg, *Vice-President, Finance,* Canadian Pacific Railway Company, Montreal

* Member of Executive Committee

Officers

N. R. Crump, *Chairman of the Company,* Montreal

F. V. Stone, *President and Chief Executive Officer,* Montreal

Ian D. Sinclair, *Vice-President,* Montreal

The Hon. Duff Roblin, P.C., *Executive Vice-President,* Montreal

G. J. van den Berg, *Vice-President, Investments,* Montreal

H. M. Pickard, *Vice-President, Operations,* Calgary

F. A. Rutherford, *Comptroller,* Montreal

James Holmes, *Treasurer,* Montreal

J. C. Ames, *Secretary,* Montreal

Transfer Agent and Registrar

Montreal Trust Company, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Stock Listings

Preferred Shares, Series A: Montreal, Toronto and Vancouver Stock Exchanges

Highlights (millions of dollars)	**1968**	1967
Operating Income	**$ 15.3**	$ 13.1
Investment Income	**22.5**	20.0
Consolidated Net Income	**41.9**	39.9
Dividends declared on Common Shares	**21.5**	20.1
Investments at year end:		
Portfolio	**276.0**	239.0
Unconsolidated Subsidiaries	**189.2**	176.5
Properties	**242.2**	194.7

1968 was a year of unusual contrasts, both for the Canadian economy and for Canadian Pacific Investments Limited. The economy was subjected to a series of severe dislocations — an exchange crisis, a public finance crisis and extremely strained credit conditions. Wages and prices continued to rise at a disquieting rate. Yet, physical output grew by a robust 4½%, merchandise exports increased by nearly 20%, and a record trade surplus of $1¼ billion was achieved.

To some extent Canadian Pacific Investments is insulated from a few of the more obvious economic difficulties. The financial strength of the Company has enabled it to minimize long term borrowing commitments at abnormally high interest rates, while continuing its aggressive program of expansion. The Company's substantial holdings of developed and undeveloped real estate properties may be looked upon as a hedge against the effects of inflation. Furthermore, the concentration of the Company in the area of resource development — not notably labour intensive — provides some shelter against wage inflation.

However, reflecting the diversity of both Canada's economy and the Company itself, Canadian Pacific Investments did experience uneven profit growth patterns within its operating subsidiaries and portfolio holdings. While demand for lumber and oil and gas was strong, international market conditions adversely affected the price structures for other commodities important to the Company such as pulp and paper, fertilizer, and lead and zinc. Particular circumstances also affected the market for hotel services in 1968.

Consolidated net income of the Company in 1968 amounted to $41.9 million, compared with $39.9 million in the previous year. After provision for dividends on the Preferred shares for a full year in 1968, income per Common share was 74¢, compared with 78¢ in 1967. Income from the wholly-owned operating subsidiaries showed particular strength and investment income was up. Dividends from Cominco Ltd. and equity in the retained income of that Company which is taken into consolidated net income were both lower.

Unconsolidated earnings, which include only that portion of the earnings of wholly-owned and partly-owned subsidiaries paid to the Company in dividends, amounted to $31.5 million.

Dividends totalling $4.7 million, at the rate of 4¾%, were paid on the Preferred shares, Series A.

Dividends on the Common shares of the Company amounted to $21.5 million, an increase of $1.4 million over 1967. The dividend rate in 1968 was 43.0¢ per Common share, compared with 40.2¢ per share in the previous year.

During the year the book value of the Investment Portfolio increased by $37.0 million, to $276.0 million. The estimated market value at the end of 1968 was $315.1 million. Net investment in properties, at $242.2 million, was $47.5 million higher than at the end of 1967. Of the increase, $33.2 million was in real estate and related operations, $13.2 million in oil, gas and other mineral properties, $0.7 million in timberlands and related facilities and $0.4 million in hotels. Canadian Pacific Securities Limited raised an additional $36.6 million by short term notes during the year to provide funds principally for development projects of companies wholly or partly-owned by Canadian Pacific Investments Limited.

Despite the unevenness of the Canadian economy's performance in 1968, one cannot but be impressed by its remarkable resilience — and, indeed, by that of the economies of all the industrially advanced nations — in the face of major social, political and financial disturbances. Such conditions do, however, add to the difficulties of achieving the international financial co-operation and stability so vital for international trade. A smoothly functioning payments mechanism is essential, and renewed progress in the reduction of trade barriers desirable, for the continued growth of world trade and, in particular, of Canada's export trade.

For the Directors,

Fred V. Stone

President and Chief Executive Officer

N R Crump

Chairman

Montreal, March 7, 1969

Oil, Gas and Other Minerals

A record net income of $11.8 million was produced by oil, gas and other mineral operations in 1968. Gross operating revenues, at $25.3 million, were $3.9 million higher than in 1967, while expenses, at $13.5 million, were up only $2.7 million.

Extent of Interests

Activities of Canadian Pacific Oil and Gas Limited are based on approximately 23 million acres of mineral rights owned, leased, or held under permit or reservation principally in the Canadian west, stretching from the Arctic to the U.S. border. Of these rights, 2.8 million acres in the Northwest Territories, northeastern British Columbia and southern Alberta and in Lake Erie were acquired during 1968. In addition, the Company has interests in Panarctic Oils Ltd., which holds mineral rights in over 50 million acres in Canadian Arctic islands. It is also engaged, jointly with others, in exploration of 736,000 acres of petroleum rights in the North Sea.

The net proven and probable reserves of the Company at the end of 1968 were estimated to be 93.6 million barrels of crude oil, 1,382 billion cubic feet of natural gas, 15.8 million barrels of natural gas liquids and 2.9 million long tons of sulphur.

Exploration and Development

In 1968 the Company carried out its largest geophysical exploration program to date. Exploratory drilling resulted in oil discoveries in central Alberta and in gas discoveries in northeastern British Columbia and southern Alberta.

The Company participated in the successful drilling of 20 oil wells and 27 gas wells for a net interest of 55%. At year end net wells owned which were producing or capable of production totalled 214.4 oil wells and 243.0 gas wells.

Farmout arrangements were completed with other operators providing for the exploration and development of a further 2.3 million acres of mineral rights owned by the Company in the three Prairie provinces.

Production

Production from both company operated and royalty properties showed increases. Net daily production of crude oil, including natural gas liquids, averaged 14,278 barrels, an increase of 855 barrels per day over the previous year. Net daily production of natural gas averaged 125.5 million cubic feet, an increase of 19.3 million cubic feet per day. Average sulphur production was 235 long tons per day, an increase of 72 tons over 1967.

Capital expenditures for the year totalled $19.7 million, of which $5.9 million related to well costs, $5.9 million to the acquisition and maintenance of mineral rights, and $3.4 million to geological and geophysical surveys; $2.1 million was for production and other equipment, and $2.4 million for other costs.

Coal

Exploration and development of coal bearing properties in southeastern British Columbia progressed during the year. Over 40 million long tons of near-surface metallurgical grade coal have been proven. Preliminary negotiations for a long term sales contract with Japanese steel interests were commenced.

Bow River Pipe Lines Ltd.

Bow River Pipe Lines Ltd., in which a 50% interest is held, and whose facilities provide access to markets for a major proportion of the Company's oil production from southern Alberta, completed another successful year of operation in 1968. By year end, throughput was at the rate of 20,000 barrels per day, compared with 16,000 barrels at the end of 1967. In addition to the operation of a 357-mile oil pipe line system from the Taber area to Hardisty, Alberta, Bow River Pipe Lines is also investigating the possibility of oil and gas exploration on its own account.

Panarctic Oils Ltd.

The first year of a three-year exploration program was completed by Panarctic Oils Ltd., in which an interest of approximately 9% is held each by Canadian Pacific Oil and Gas Limited and Cominco Ltd. Activities during the year included 685 miles of geophysical surveys on Melville Island. Following further evaluation of data obtained, drilling of the first test well on the island is scheduled to begin by the end of March, 1969.

Aerial view of storage grounds at Sooke Forest Products mill on Vancouver Island, where logs cut from Pacific Logging timberlands are held prior to processing into lumber.

Timberlands and Related Facilities

Income from timberlands and related facilities reached $2.6 million in 1968, compared with $625,000 in the previous year. Sales and operating revenue, at $22.1 million, was $10.7 million higher than in 1967.

Demand High

Increased residential construction in Canada and the United States created a high demand for logs and lumber, accounting for a significant increase in the volume of logs sold from market logging operations on Vancouver Island and for higher log prices. Favorable weather conditions and the absence of work stoppages on the west coast also helped to make a good year.

Log Sales

Sales of logs in 1968 from operations on Vancouver Island and coast areas of mainland British Columbia amounted to 242.0 million board feet, compared with 116.3 million board feet in the previous year. Included in sales was production from properties acquired from Georgia-Pacific International Corporation at the end of 1967.

A new two-year labour contract applicable to coast operators was negotiated in June without interruption to operations.

Slocan Mill

A labour settlement brought to an end a seven-month strike at the Slocan lumber mill in the southern interior of British Columbia.

The mill was re-opened on May 15, permitting the Company to participate in the strong lumber markets which prevailed during the remainder of the year. Sales of lumber totalled 30.0 million board feet over a period of less than 8 months' operation in 1968, compared with 31.9 million board feet over a 9-month period in the previous year.

Capital Expenditures

Capital expenditures for the year were $3.2 million and included $1.4 million for the purchase of timberlands, $1.4 million for the construction of an additional 93 miles of roads and $400,000 for the purchase of equipment and improvements to existing facilities.

Tax Settlement

Pacific Logging Company Limited has made a settlement with the Minister of National Revenue of the income tax re-assessments received for the years 1963 and 1964. The settlement resulted in a net charge to Retained Income of $2.9 million for the years 1963 through 1967, and provided a basis for future assessments.

Real Estate and Related Operations

Consolidated income from real estate and related operations amounted to $1.3 million for the year, an increase of $139,000 over 1967. Improved earnings from industrial and commercial properties were partly offset by costs associated with the increased development activities of Marathon Realty Company Limited. Lower income from agricultural lands and grain elevators, largely because of the drop in exports of Canadian grain, also had an adverse effect on 1968 earnings.

Significant progress was made by Marathon in developing its urban land holdings across the country and additional properties were acquired to complement present holdings and to provide for systematic development of future projects.

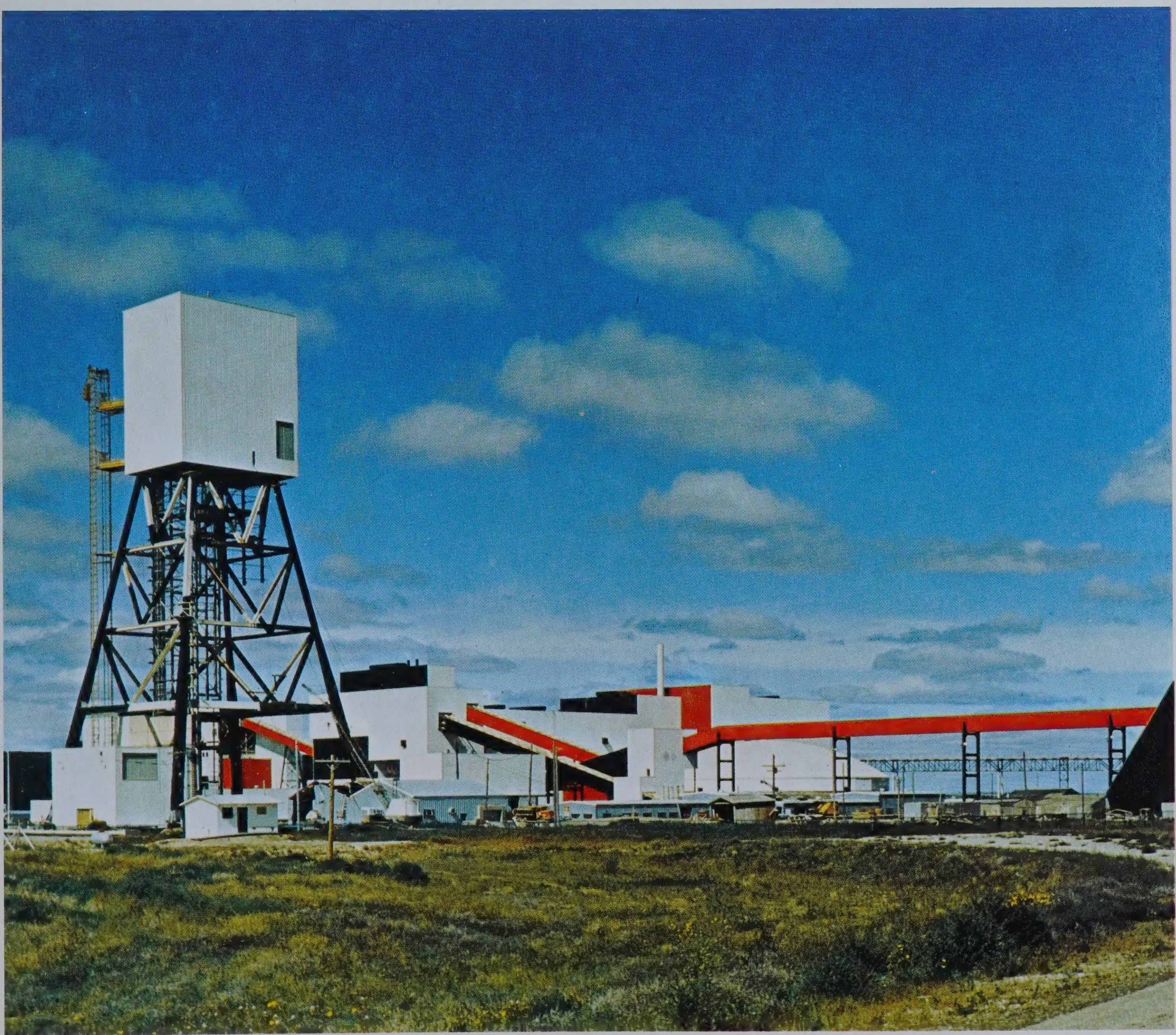
Industrial Properties

Twelve buildings were completed in 1968 in the industrial parks previously established in Calgary, Edmonton, Sudbury and Montreal, and at year end 9 more were committed or under construction. In addition, 3 buildings were completed during the year at other industrial sites, the largest of which was phase one of Keele Centre, a multi-tenant industrial building in Toronto. Construction of phase two of this Centre is now under way.

To the end of 1968, a total of 47 buildings, having an aggregate floor area of more than 3 million square feet, had been constructed or committed for construction at industrial locations throughout Canada. Early in 1969 plans were announced for the development of a 75-acre site at Quebec City, and negotiations are currently under way for several plants to locate there.

Marathon, through its 50% interest in Marathon Aviation Terminals Limited, is participating in the de-

Cominco potash mine at Vade, Sask., 20 miles south-west of Saskatoon. The mine, which commenced initial production early in 1969, will have a capacity of 1.2 million tons per year.



velopment of new airport facilities. A hangar has been built at Montreal airport and negotiations regarding a number of other service buildings at various locations are at present under way.

Palliser Square

Progress continued on Palliser Square, the large commercial development in downtown Calgary. The Husky Tower, a 626-foot observation tower, was opened in June and a 600-car parking structure is nearing completion. Construction has begun on shopping malls and commercial areas and on an adjacent 200-suite apartment building. When completed, the development will also contain a transportation centre, twin theatres and a 30-storey office building.

"Project 200"

During 1968 re-zoning was obtained for "Canada Square", a major phase of "Project 200", the 23-acre development of land and air rights along the Vancouver waterfront. Start of construction of a large office building and other commercial space is scheduled to begin in the Spring of 1969.

Metro Centre

Plans for the development of Metro Centre on 190 acres of railway land adjoining the downtown core of Toronto were announced in December by Canadian Pacific and Canadian National. Metro Centre will be the largest project of its kind in North America. It is being undertaken jointly by Marathon Realty Company Limited and Canadian National, and will incorporate a transportation centre, a communications tower, office buildings, hotel, residential and other commercial facilities. Construction is expected to start by the end of 1969.

Other Commercial Developments

During the year small commercial establishments were completed at Grand Forks in British Columbia, at Camrose, Ponoka and Stettler in Alberta, and at LaSalle in Quebec. This brings to 14 the number of centres at which such facilities have been constructed and leased to major chain stores and independent retail merchants. Similar developments are currently planned for other locations in Canada.

Residential Development

Strathcona House, a 220-suite apartment building in Edmonton, was ready for partial occupancy in December; the remaining suites will be available in March, 1969. Construction of Shawnoaks, a 72-unit townhouse development in Vancouver progressed satisfactorily and is scheduled for completion in mid-1969.

Development of Langara Gardens, a three-year project for the construction of a 534-unit high rise and garden apartment complex in Vancouver, commenced during the year and the first dwellings will be available for occupancy early in 1969.

Capital Expenditures

Capital expenditures on commercial and industrial properties in 1968 amounted to $34.2 million, compared with $12.0 million in 1967. The 1968 spending included $18.9 million for purchases of properties, $7.3 million for shopping centres and other commercial projects, $6.7 million for industrial parks and sites, and $1.3 million for residential and other developments. Properties acquired included the Place du Canada office building in Montreal, through Marathon's purchase of the remaining 75% equity interest in Foundation-Scottish Properties Ltd. The inclusion of the assets and liabilities of that wholly-owned company in the consolidated accounts resulted in an increase of $14.0 million in properties and of $11.2 million in long term debt outstanding.

Hotels and Restaurants

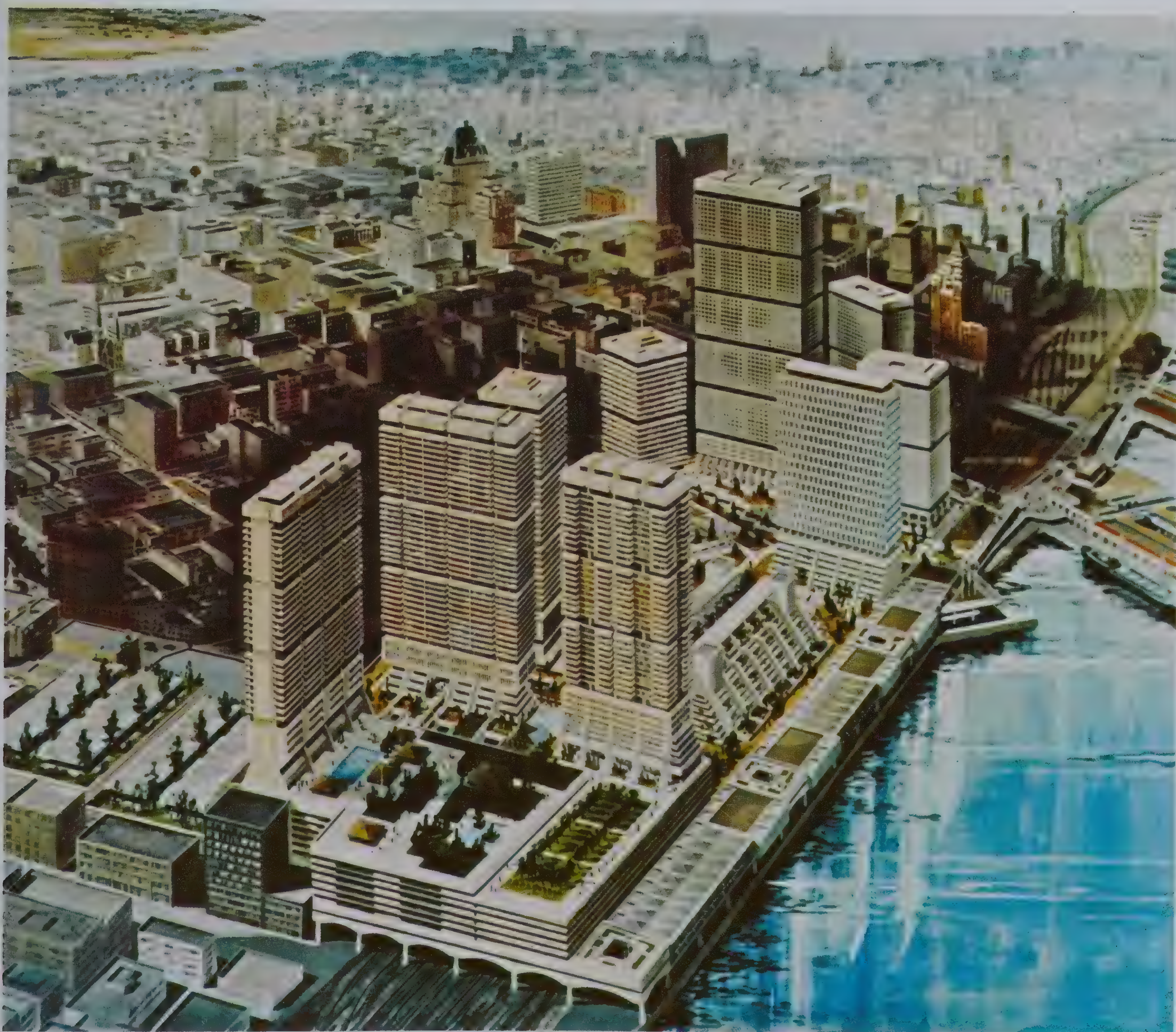
Operation of hotels and restaurants resulted in a loss of $542,000 compared with a profit of $581,000 in 1967.

Tourist Travel Declines

A decline in tourist and general travel in Eastern Canada during 1968 from the high level created by Centennial activities and Expo 67, adversely affected the Company's hotel earnings.

Gross operating revenue, at $37.8 million, showed a decrease of $3.2 million, due mainly to a drop in

Artist's conception of Project 200 city core development at Vancouver, B.C., in which Marathon Realty has a major interest.



Model of Le Baron motor hotel at Trois-Rivières, Que., to be opened in the Fall of 1969 by CP Hotels.

tourist and convention business at Le Château Champlain and Le Château Frontenac. Lower room occupancy was also reported at Le Baron Motor Hotel, the Royal York Hotel and Hotel Saskatchewan in 1968, while business at the Empress Hotel and at the Skylon Restaurants showed improvement.

Total earnings of hotels operated under management and other agreements, in respect of which fees are received by the Company, were higher than in 1967.

Capital Expenditures

Capital expenditures totalling $3.0 million were made during the year in continuing the program of modernization and improvement of the older hotels. These included $1.1 million for major renovations at the Empress Hotel, $744,000 for Le Château Frontenac, $691,000 for the Royal York Hotel and $500,000 for improvements to other hotel and restaurant facilities.

New Motor Hotel

The Company extended its interest in the motor hotel field. Arrangements were completed for the operation, under lease, of the new 102-room Le Baron motor hotel at Trois Rivières, Quebec, which is scheduled to open in the Fall of 1969. In addition, studies were commenced with respect to similar operations in other areas across Canada.

Other projects under consideration include the

Interior of gas processing plant operated by Canadian Pacific Oil and Gas at Wayne Dalum, Alta.

operation of hotels in major Canadian cities not now served by CP Hotels, and in Mexico.

Financing

Despite the effects of tight money policies in Canada and the United States, the financing activities of Canadian Pacific Securities Limited continued to expand. An additional $36.6 million was raised by short term notes during the year, principally to provide funds for projects of subsidiary companies of Canadian Pacific Investments Limited. At year end a total of $114.3 million of notes and term loans, including accrued interest, was outstanding, of which $26.0 million was borrowed from affiliated companies.

Financing operations for the year resulted in net earnings of $144,000 compared with $171,000 in 1967. The decrease was attributable to the substantially higher interest costs which prevailed in 1968.

Loans Outstanding

Loans outstanding to subsidiary companies of Canadian Pacific Investments Limited totalled $93.3 million at the end of 1968, of which $65.1 million was to wholly-owned subsidiaries. A loan of $5.0 million to Canadian Pacific Air Lines, Limited was also outstanding. The balance of the proceeds raised was held in temporary investments to provide funds to meet future cash requirements.

Investment Income

Net investment income for the year was $22.5 million, compared with $20.0 million in 1967.

Dividends and interest from the Portfolio and temporary investments increased by $4.6 million and reflected mainly the investment of proceeds from the Preferred stock issue of November, 1967. The improvement was partly offset by a reduction of $685,000 in dividends received from Cominco Ltd. and by an increase of $1.4 million in income taxes and other expenses.

Cominco Ltd.

During the year, an additional $5.1 million was invested in Common stock of Cominco Ltd., increasing the ownership in that subsidiary to 53.2%.

Consolidated income of Cominco Ltd. for 1968

amounted to $32.3 million, or $1.93 per share, compared with $38.5 million, or $2.31 per share, in the previous year.

The lower earnings can be mainly attributed to the taxation of Pine Point income commencing March 1, 1968 and increased transportation charges on its products, and to a significant reduction in profits from chemicals and fertilizers as a result of falling prices.

Substantial progress was achieved during the year in the development of a number of major projects. Construction was completed ahead of schedule on the mercury mine at Pinchi Lake, B.C. Production from this mine and a new copper mine at Benson Lake on Vancouver Island, B.C., commenced in mid-year.

Development of the new open pit lead and zinc mine on property acquired by Pine Point Mines Limited in 1966 from Pyramid Mining Company Limited was completed during the year. Test production commenced at the end of December using the expanded concentrator at Pine Point. The mine is expected to be working at full capacity early in 1969.

The Magmont lead mine in Missouri, a joint venture with Dresser Industries, Inc., was brought into production in mid-year. The ammonia plant of Hill Chemicals, Inc., in Texas, in which a 50% interest is held, also went into production in 1968. Ammonia from this plant, which has a capacity of 1,000 tons per day, is being delivered by pipeline to fertilizer markets in the mid-west United States. Development of the potash mine and construction of facilities at Vade, Saskatchewan, continued and production is now scheduled for early 1969.

Investment Portfolio

The book value of the Investment Portfolio, excluding temporary investments, was $276.0 million at the end of 1968, compared with $239.0 million at the close of the previous year, and had an estimated market value of $315.1 million. Full details of holdings in the Investment Portfolio are shown on page 21.

Classification of Holdings

The investment in common stocks, which are primarily in Canadian resource oriented industries and are designed to complement other operations of the Company, amounted to $231.7 million at December 31, 1968, an increase of $29.4 million over 1967, and was distributed by industries as follows:

Pulp and paper	36.7%
Pipe lines	22.2
Oil and gas	15.5
Metals and mining	11.4
Chemicals	7.1
Financial	6.5
Miscellaneous	0.6
	100.0%

A brief review of the companies in which the Company has major holdings of common stock, together with details of the more significant purchases made during 1968, is given below. The only major sale of common stock during the year was the disposal of the $6.2 million holding of Provincial Bank of Canada.

MacMillan Bloedel Limited

The investment in MacMillan Bloedel Limited was increased by $7.9 million to $64.4 million. The earnings of this company were reduced in 1968 due to increased cost of labour, higher taxes on income and cost associated with major expansion projects. Dividend income from the investment in 1968 amounted to $2.0 million.

The Great Lakes Paper Company Limited

The investment in The Great Lakes Paper Company Limited amounted to $20.7 million at year end, an increase of $11.2 million over 1967. The company had decreased earnings in 1968 as a result of a decline in newsprint shipments caused by a lengthy Detroit newspaper strike and a two-week mill strike. Dividend income for the year was $588,000, a large increase over 1967 which is directly attributable to the increased stock held in that company.

Trans-Canada Pipe Lines Limited

During 1968 the investment in Trans-Canada Pipe Lines Limited Common stock was increased by $3.2 million, bringing the cost of the total holding to $51.4 million. In addition, $8.1 million was invested in Convertible Preferred shares of this company. The Great

Strathcona House, a 220-suite apartment block in Edmonton, Alta., opened by Marathon Realty in December, 1968.

Lakes 1,000-mile pipe line, in which Trans-Canada has a 50% interest, was completed in 1968 and the company now expects its annual gas sales to increase at an average rate of about 15% a year over the next five years. Dividends on the Common stock holding in 1968 amounted to $1.4 million.

Central-Del Rio Oils Limited

The holdings of Central-Del Rio Oils Limited, including the shares held by Canadian Pacific Oil and Gas Limited, amounted to $29.8 million at year end. Earnings of this company for 1968 were below the level of the previous year. The company is in the process of formulating new policies to bring about an improvement in growth. The dividends received, at $0.8 million, were slightly lower than in the previous year.

Rio Algom Mines Limited

At the end of 1968, an investment of $26.4 million was held in the Common stock of Rio Algom Mines Limited, an increase of $9.8 million over 1967. During 1968, the company announced it had concluded an agreement to sell uranium oxide to a United States utility. The uranium will be supplied from the company's new property in Utah. Earnings for 1968 were adversely affected by strikes, which stopped all uranium operations for almost a month. The dividend rate for the year was unchanged at 40¢ per share, resulting in dividends of $417,000.

Union Carbide Canada Limited

The investment held at year end in Union Carbide Canada Limited amounted to $16.5 million, an increase of $2.5 million. Sales and earnings for the company were slightly up in 1968 compared to 1967. Product price declines appear to be moderating and it is expected that both sales and earnings will show further improvements in 1969. Dividends during 1968 on the investment amounted to $391,000.

Corporate

Dividends

Dividends totalling $4.7 million were paid during 1968 on the 4¾% Cumulative Redeemable Convertible Voting Preferred shares, Series A, of the Company issued in November, 1967. Dividends on the Common stock in 1968, at the rate of 43.0¢ per share, amounted to $21.5 million. The comparable payments in 1967 were $20.1 million on the Common stock, equal to 40.2¢ per share.

Stock Holdings

At December 31, 1968 there was a total of 25,246 registered shareholders of the Preferred shares, Series A, of whom 99.29% were resident in Canada.

At year end there were outstanding 50,015,852 Common shares, of which 50,000,000 were owned by Canadian Pacific Railway Company.

Share Purchase Warrants were mailed to holders of Preferred shares, Series A of record at the close of business on August 1, 1968, entitling such holders to purchase one Common share for each Preferred share, Series A held. These warrants were posted for trading on the Montreal, Toronto and Vancouver Stock Exchanges.

Calgary's central downtown core showing Husky Tower, Palliser Hotel, Natural Resources Building (foreground), and Palliser Square commercial area and parkade (under construction).

Statement of Consolidated Income

Canadian Pacific Investments Limited and Subsidiary Companies

	1968		1967	
Oil, Gas and Other Minerals:				
Gross operating revenue	$25,335,023		$21,415,877	
Operating expenses	$ 4,060,669		$ 3,278,468	
Depreciation and depletion	5,036,671		3,404,230	
Income taxes	4,387,947		4,124,499	
	$13,485,287	$11,849,736	$10,807,197	$10,608,680
Timberlands and Related Facilities:				
Sales and operating revenue	$22,138,298		$11,455,576	
Operating expenses	$13,601,679		$ 8,074,566	
Depletion, depreciation and amortization	2,480,726		2,317,104	
Income taxes	3,505,167		438,425	
	$19,587,572	2,550,726	$10,830,095	625,481
Real Estate and Related Operations:				
Gross rentals and other income	$ 9,499,931		$ 6,867,991	
Operating expenses	$ 6,494,977		$ 4,272,897	
Depreciation	631,124		407,730	
Income taxes	1,053,328		1,005,839	
	$ 8,179,429	1,320,502	$ 5,686,466	1,181,525
Hotels and Restaurants:				
Gross operating revenue	$37,841,321		$41,088,177	
Operating expenses	$36,212,434		$37,499,047	
Depreciation	2,711,988		2,394,172	
Income taxes	(540,855)		613,800	
	$38,383,567	(542,246)	$40,507,019	581,158
Financing:				
Gross operating revenue	$ 6,352,216		$ 3,943,236	
Operating expenses	$ 6,192,086		$ 3,634,962	
Income taxes	16,515		137,700	
	$ 6,208,601	143,615	$ 3,772,662	170,574
Investment Income:				
Dividends —				
Cominco Ltd.	$12,334,821		$13,019,426	
Other partly-owned subsidiary companies	209,642		115,736	
Dividends and interest from portfolio and other investments	12,487,022		7,934,464	
	$25,031,485		$21,069,626	
Expenses	$ 666,167		$ 226,801	
Income taxes	1,849,798		874,687	
	$ 2,515,965	22,515,520	$ 1,101,488	19,968,138
Consolidated income before the following		$37,837,853		$33,135,556
Equity in net income of Cominco Ltd. and other partly-owned subsidiary companies (in excess of dividends included above)		4,064,146		6,741,747
Consolidated Net Income		$41,901,999		$39,877,303

See Notes to Financial Statements

Statement of Consolidated Retained Income

	1968	1967
Balance, January 1	**$111,059,209**	$ 90,129,042
Add:		
Net income for the year	**$ 41,901,999**	$ 39,877,303
Equity in recovery of income taxes for prior years of Cominco Ltd.	**—**	990,270
Equity in gain on sale of hydro-electric plant of Cominco Ltd.	**1,330,250**	—
Net gain on sales of securities	**531,846**	4,032,364
Miscellaneous (net)	**137,860**	(32,362)
	$ 43,901,955	$ 44,867,575
	$154,961,164	$134,996,617
Deduct:		
Expenses in connection with the issue of Preferred shares, Series A (less income tax $402,967)	**$ —**	$ 3,871,970
Prior years' income taxes	**2,858,861**	—
Dividends		
Preferred stock	**4,749,323**	—
Common stock	**21,504,584**	20,065,438
	$ 29,112,768	$ 23,937,408
Balance, December 31	**$125,848,396**	$111,059,209

See Notes to Financial Statements

Consolidated Balance Sheet, December 31

Assets	**1968**	1967
Current Assets:		
Cash and temporary investments, at cost (approximates market)	**$ 37,836,204**	$ 91,816,851
Deposits with Canadian Pacific Railway Company	**7,938,008**	4,067,403
Dividend (1967 only) and accrued interest receivable from Cominco Ltd.	**208,333**	6,288,061
Other dividends and accrued interest receivable	**2,012,694**	1,819,432
Accounts receivable	**10,652,205**	9,352,601
Inventories, at the lower of cost or market	**3,668,915**	2,963,387
Prepaid expenses	**1,072,657**	525,824
	$ 63,389,016	$116,833,559
Investment Portfolio, at cost	**$276,031,362**	$239,026,323
Investments in Subsidiary Companies not Consolidated:		
Cominco Ltd.	**$183,760,310**	$173,075,802
Other	**5,443,242**	3,419,603
	$189,203,552	$176,495,405
Other Investments, at cost:		
Term loans — affiliated companies	**$ 5,000,000**	$ —
Other	**12,366,768**	7,434,335
	$ 17,366,768	$ 7,434,335
Properties, at cost:		
Oil, gas and other minerals	**$107,480,366**	$ 89,151,647
Timberlands and related facilities	**43,571,299**	40,454,105
Real estate and related operations	**68,414,120**	34,272,671
Hotels	**61,765,108**	58,856,499
	$281,230,893	$222,734,922
Less: Accumulated depreciation, depletion and amortization	**39,029,085**	28,069,791
	$242,201,808	$194,665,131
Other Assets	**$ 3,500,143**	$ 2,995,374
	$791,692,649	$737,450,127

Approved on behalf of the Board:
Ian D. Sinclair, Director
Duff Roblin, Director

See Notes to Financial Statements

Liabilities	1968	1967
Current Liabilities:		
Accounts payable and accrued charges		
Canadian Pacific Railway Company	$ 2,617,188	$ 3,561,520
Purchase agreement for timberland assets	—	7,100,000
Other	13,282,644	9,869,045
Notes and accrued interest payable		
Subsidiary companies not consolidated	648,407	2,150,849
Other	73,287,551	64,813,424
Income and other taxes payable	8,626,478	3,094,141
Dividends payable	10,754,580	10,032,719
Long term debt maturing within one year	2,006,000	—
	$111,222,848	$100,621,698
Deferred Liabilities, principally severance taxes	$ 1,944,932	$ 2,477,991
Deferred Credits:		
Deferred income taxes	$ 23,922,350	$ 19,068,426
Other	1,138,245	816,709
	$ 25,060,595	$ 19,885,135
Long Term Debt:		
6½ % First Mortgage Bonds maturing 1995	$ 11,180,000	$ —
7½ % Promissory Notes due serially 1970-1973	13,000,000	—
	$ 24,180,000	$ —
Shareholders' Equity:		
Capital Stock —		
Preferred shares		
Authorized — 12,500,000 shares of a par value of $20 each		
Issued — 4,993,315 (1967 - 5,000,000) 4¾ % Cumulative Redeemable Convertible Voting, Series A	$ 99,866,300	$100,000,000
Common shares		
Authorized — 100,000,000 shares without nominal or par value		
Issued — 50,015,852 (1967 - 50,000,000) shares	321,769,264	321,605,780
Paid-in surplus	81,800,314	81,800,314
Retained income	125,848,396	111,059,209
	$629,284,274	$614,465,303
	$791,692,649	$737,450,127

Statement of Consolidated Source and Application of Funds

Canadian Pacific Investments Limited and Subsidiary Companies

		1968	1967
Source of Funds			
Net income		**$ 41,901,999**	$ 39,877,303
Deduct: Equity in income of partly-owned subsidiary companies in excess of dividends received		**4,064,146**	6,741,747
		$ 37,837,853	$ 33,135,556
Depreciation, depletion and amortization		**10,860,509**	8,763,236
Deferred income taxes		**4,853,924**	4,895,639
Funds from operations		**$ 53,552,286**	$ 46,794,431
Capital stock issued			
Preferred		**—**	100,000,000
Common			
Issued	$163,484		
Less: Conversion of Preferred shares	133,700	**29,784**	10,785,620
Increase in short term borrowings		**6,971,685**	43,988,445
Increase in long term debt		**24,180,000**	—
Net gain on sales of securities		**531,846**	4,032,364
Proceeds from disposal of properties		**2,782,787**	1,809,132
Sundries (net)		**303,918**	(379,866)
Decrease in cash and temporary investments		**53,980,647**	(87,876,130)
Decrease in working capital exclusive of cash and temporary investments and short term borrowings		**3,093,361**	7,718,071
		$145,426,314	$126,872,067
Application of Funds			
Additions to investment portfolio		**$ 37,005,039**	$ 32,146,525
Investment in subsidiary companies, not consolidated		**7,300,445**	20,192,754
Additions to other investments		**9,932,433**	5,643,362
Additions to properties		**62,075,629**	44,952,018
Dividends declared		**26,253,907**	20,065,438
Expenses in connection with issue of Preferred shares, Series A		**—**	3,871,970
Prior years' income taxes		**2,858,861**	—
		$145,426,314	$126,872,067

Consolidated Investment Portfolio as at December 31, 1968

Common Stocks	Number of Shares	Percentage of Outstanding Voting Shares	Cost	Approximate Market Value
Central-Del Rio Oils Limited	3,370,064	49.97	$ 29,833,803	$ 54,763,540
The Great Lakes Paper Company Limited	924,360	25.66	20,747,814	22,877,910
The Huron & Erie Mortgage Corporation	491,260	10.00	6,466,427	8,228,605
Husky Oil Ltd.	522,200	5.42	5,978,694	12,663,350
The Investors Group	697,200	19.92	8,649,349	6,449,100
MacMillan Bloedel Limited	2,140,500	10.26	64,365,782	61,539,375
Rio Algom Mines Limited	1,132,769	9.25	26,421,187	35,115,839
Trans-Canada Pipe Lines Limited	1,383,840	16.76	51,447,907	53,450,820
Union Carbide Canada Limited	727,925	7.28	16,505,781	14,376,519
Other			1,289,494	1,990,713
			$231,706,238	$271,455,771

Preferred Stocks		Number of Shares	Cost	Approximate Market Value
Canborough Limited	Cumulative Redeemable Preferred Series "A" 5¼% — Par value $100	12,500	$ 1,250,000	$ 1,250,000
Consolidated-Bathurst Limited	Cumulative Redeemable Preferred Series 1966 6% — Par value $25	44,825	1,165,289	851,675
The Consumers' Gas Company	Cumulative Redeemable Preference Series "C" 5% — Par value $100	11,900	1,190,000	1,023,400
Debhold (Canada) Limited	Cumulative Redeemable Preferred Series "A" 6% — Par value $100	15,000	1,500,000	1,305,000
Great Britain & Canada Investments (1968) Limited	Cumulative Redeemable First Preferred 5.25% — Par value $50	25,485	1,260,757	841,005
Thomson Newspapers Limited	Cumulative Redeemable Preference Series "A" 6¾% — Par value $50	43,200	2,116,262	2,138,400
Trans-Canada Pipe Lines Limited	Cumulative Redeemable Preferred $2.80 — Par value $50	30,000	1,485,000	1,275,000
	Cumulative Redeemable Convertible Preferred Series "A", $2.75 — Par value $50	161,800	8,090,000	11,892,300
Union Gas Company of Canada, Limited	Cumulative Redeemable Preference Series "C" 5% — Par value $50	50,000	2,500,000	2,375,000
Other			8,332,941	7,284,741
			$ 28,890,249	$ 30,236,521
Bonds, Debentures and Notes			$ 15,434,875	$ 13,412,850
			$276,031,362	$315,105,142

Note 1 — Basis of Consolidation
The consolidated financial statements include the accounts of all wholly-owned subsidiary companies, namely Canadian Pacific Oil and Gas Limited, Marathon Realty Company Limited, Pacific Logging Company Limited, Canadian Pacific Hotels Limited and Canadian Pacific Securities Limited. In the case of wholly-owned subsidiaries incorporated by Canadian Pacific Railway Company (CPR) prior to their acquisition by Canadian Pacific Investments Limited (CPI), the 'pooling of interests' concept has been applied and consequently consolidated retained income includes the retained income of such companies at the dates of their acquisition.

The statement of consolidated income is designed to present the revenues and expenses of the various areas of the companies' operations. To this end, certain operating revenues include amounts charged to other consolidated entities and reflected in expenses elsewhere in the statement. Consolidated net income is not affected by this practice.

Note 2—Investments in Partly-Owned Subsidiary Companies
The financial statements of Cominco Ltd. and other partly-owned subsidiaries are not consolidated because of the existence of substantial minority interests. However, the equity method of accounting has been followed in stating the investments in these companies, so that CPI includes each year in consolidated income its share of their income.

CPI acquired 8,412,500 shares of Cominco Ltd. (51.35%) from CPR in December, 1963 at CPR's average cost of $2.03 per share. Subsequently CPI adjusted the carrying value of these shares to the book value of its equity in the underlying assets as shown by the consolidated financial statements of Cominco Ltd. at December 31, 1963 ($11.75 per share). The excess of the value thus established over the acquisition cost, amounting to $81,800,314, was designated as paid-in surplus. Since 1962 CPI has acquired 467,161 shares of Cominco Ltd. from other sources at market prices and recorded these acquisitions at cost. At December 31, 1968, 53.18% was owned.

An analysis of investments in partly-owned subsidiaries is shown below:

	Investments in	
	Cominco Ltd.	Other partly-owned subsidiaries
	(in thousands)	
Shares —		
Cost of acquisition	$ 31,216	$3,085
Adjustment of carrying value as described above	81,800	—
Equity in net income since acquisition, less dividends received	38,807	(50)
Equity in other increases in retained income	11,937	—
	$163,760	$3,035
6¼ % Notes due May 1, 1972	20,000	—
Advances	—	2,408
	$183,760	$5,443

Note 3 — Capital Stock
Pursuant to the conditions of issue of the 4¾% Cumulative Redeemable Convertible Voting Preferred Shares, Series A, the Company issued on August 1, 1968 a total of 5,000,000 warrants. Each warrant entitles the holder to purchase one common share of the company on or before November 1, 1971 at a price of $12 and thereafter and on or before November 1, 1974 at a price of $14. At December 31, 1968 2,482 warrants had been exercised, leaving a balance of 4,997,518 warrants outstanding.

Each preferred share, series A, is convertible, at the option of the holder, up to November 1, 1977, into two common shares. At December 31, 1968, 6,685 preferred shares had been converted into 13,370 common shares. The company has, at its option, the right to redeem after November 1, 1972 the preferred shares, series A, then outstanding at a price of $20 per share. Conditions attached to the preferred shares include certain restrictions on distributions on shares ranking junior to the preferred shares. At December 31, 1968 the amount of retained income available for such distributions was $46,543,748.

During the year a total of 15,852 common shares was issued, consisting of 2,482 shares on exercise of warrants and 13,370 shares on conversion of preferred shares, series A.

Note 4 — Long Term Debt
The 6½% First Mortgage Bonds are subject under the Trust Deed to annual sinking fund payments based on percentages of the amount outstanding at March 15, 1969, ranging from 1.452% in 1969 to 7.011% in 1994. For the five years from 1969 to 1973, required payments amount to $938,000, of which $159,000 has been satisfied by the purchase of bonds in 1968.

The 7½% Promissory Notes are repayable in quarterly instalments of $1,000,000 commencing August 31, 1969, with a final instalment of $2,000,000 payable on February 17, 1974. The first two instalments are included in current liabilities. The balance of the credit negotiated under the terms of this loan, amounting to $5,000,000, was drawn down in February, 1969.

Note 5 — Income Taxes
Commencing with the year ended December 31, 1963, the basis of computing taxable income for a subsidiary, Pacific Logging Company Limited, had been in dispute. In 1968 a settlement was reached under which additional income and logging taxes were payable, resulting in a net charge of $2,858,861 to retained income.

Note 6 — Statutory Information

Income from investments —	
Partly-owned subsidiaries (other than dividends)	$ 1,311,629
Interest on long term debt	533,290
Directors' remuneration —	
From company and subsidiaries consolidated	111,498
From subsidiaries not consolidated	122,733
Commitments for capital expenditures (approximate)	14,620,000
Depletion —	
Charged to expenses for year:	
1968	4,070,189
1967	3,030,303
Accumulated to:	
December 31, 1968	16,697,325
December 31, 1967	12,380,053

Note 7 — Balance Sheet Reclassifications
Changes have been made in the balance sheet to reflect current accounting practice, and amounts shown for 1967 have been restated to conform with the presentation adopted for 1968.

Auditors' Report to the Shareholders of Canadian Pacific Investments Limited:

We have examined the consolidated balance sheet of Canadian Pacific Investments Limited and subsidiary companies as at December 31, 1968 and the statements of consolidated income, consolidated retained income and consolidated source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. In respect of the equity in the undistributed net income of Cominco Ltd., we have relied upon the report of the auditors who examined its financial statements.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co., Chartered Accountants
Montreal, Quebec, March 4, 1969

Canadian Pacific Oil and Gas Limited
Head Office: Calgary, Alberta
Natural Resources Building, 205 - 9th Avenue S.E.

Pacific Logging Company Limited
Head Office: Victoria, British Columbia
468 Belleville Street

Marathon Realty Company Limited
Head Office: Calgary, Alberta
Natural Resources Building, 205 - 9th Avenue S.E.
Vancouver, British Columbia
Room 214, C.P.R. Station
Edmonton, Alberta
10012 Jasper Avenue
Regina, Saskatchewan
2124 Broad Street
Winnipeg, Manitoba
Room 312, 150 Henry Avenue
Toronto, Ontario
69 Yonge Street
Montreal 101, Quebec
Suite 1440, Place du Canada

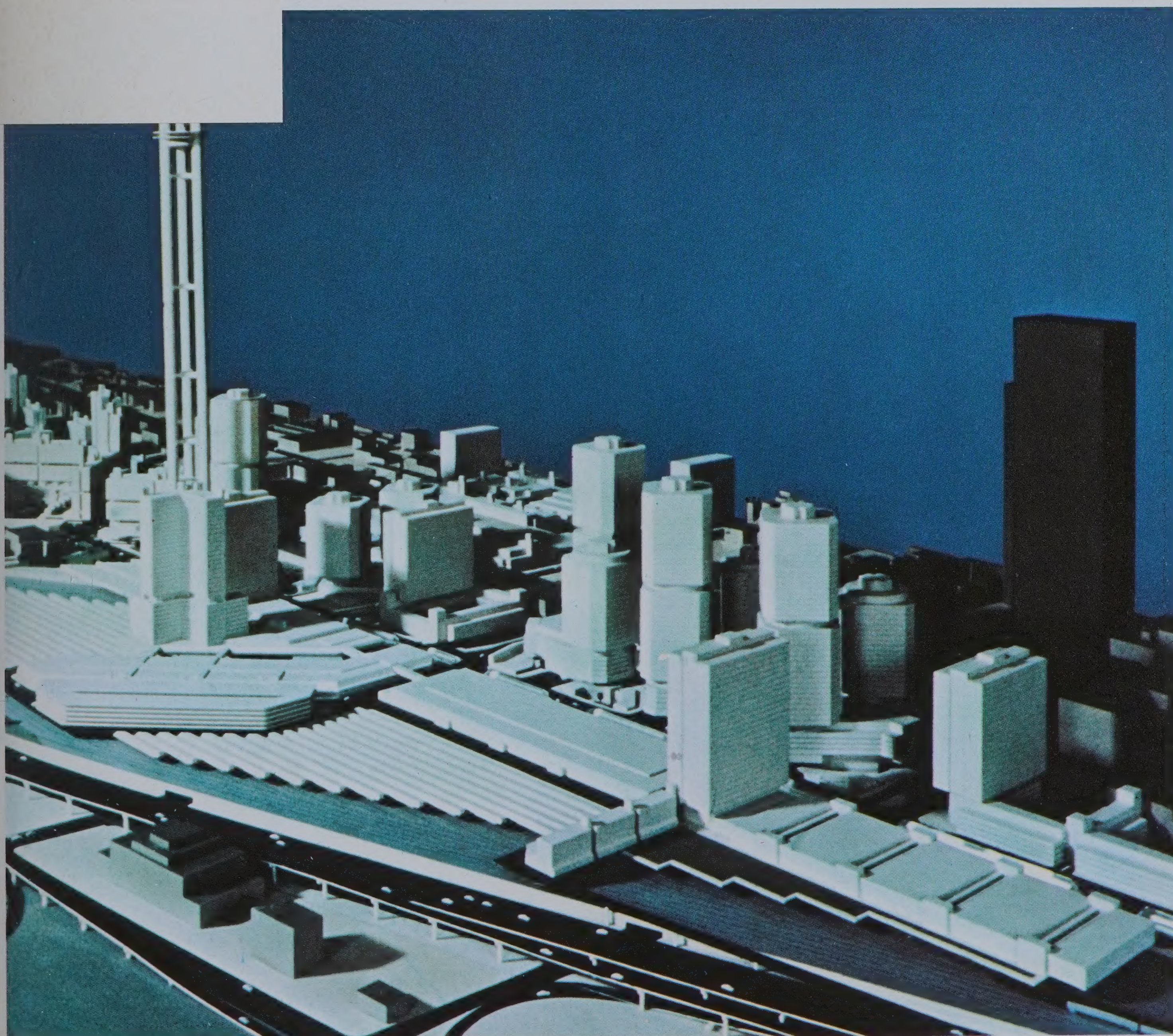
Canadian Pacific Hotels Limited
Head Office: Royal York Hotel, Toronto, Ontario
Empress Hotel, Victoria, British Columbia
*Palliser Hotel, Calgary, Alberta
*Banff Springs Hotel, Banff, Alberta
*Chateau Lake Louise, Lake Louise, Alberta
Chateau Lacombe, Edmonton, Alberta
Hotel Saskatchewan, Regina, Saskatchewan
Skylon Restaurants, Niagara Falls, Ontario
Le Château Champlain, Montreal, Quebec
Le Baron Motor Hotel, Sherbrooke, Quebec
Le Château Frontenac, Quebec City, Quebec
*Algonquin Hotel, St. Andrews, New Brunswick

*Hotels owned by Canadian Pacific Railway Company

Canadian Pacific Securities Limited
Head Office: Montreal 101, Quebec
Room 247, Windsor Station

Cominco Ltd.
Head Office: Montreal 101, Quebec
630 Dorchester Blvd. West

Toronto Metro Centre development to be undertaken jointly by Marathon Realty and Canadian National. The bulk of the work on the 190-acre project is programmed for completion in 15 years.



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*Palliser Hotel, Calgary, Alberta
*Banff Springs Hotel, Banff, Alberta
*Chateau Lake Louise, Lake Louise, Alberta
Chateau Lacombe, Edmonton, Alberta
Hotel Saskatchewan, Regina, Saskatchewan
Skylon Restaurants, Niagara Falls, Ontario
Le Château Champlain, Montreal, Quebec
Le Baron Motor Hotel, Sherbrooke, Quebec
Le Château Frontenac, Quebec City, Quebec
*Algonquin Hotel, St. Andrews, New Brunswick

*Hotels owned by Canadian Pacific Railway Company

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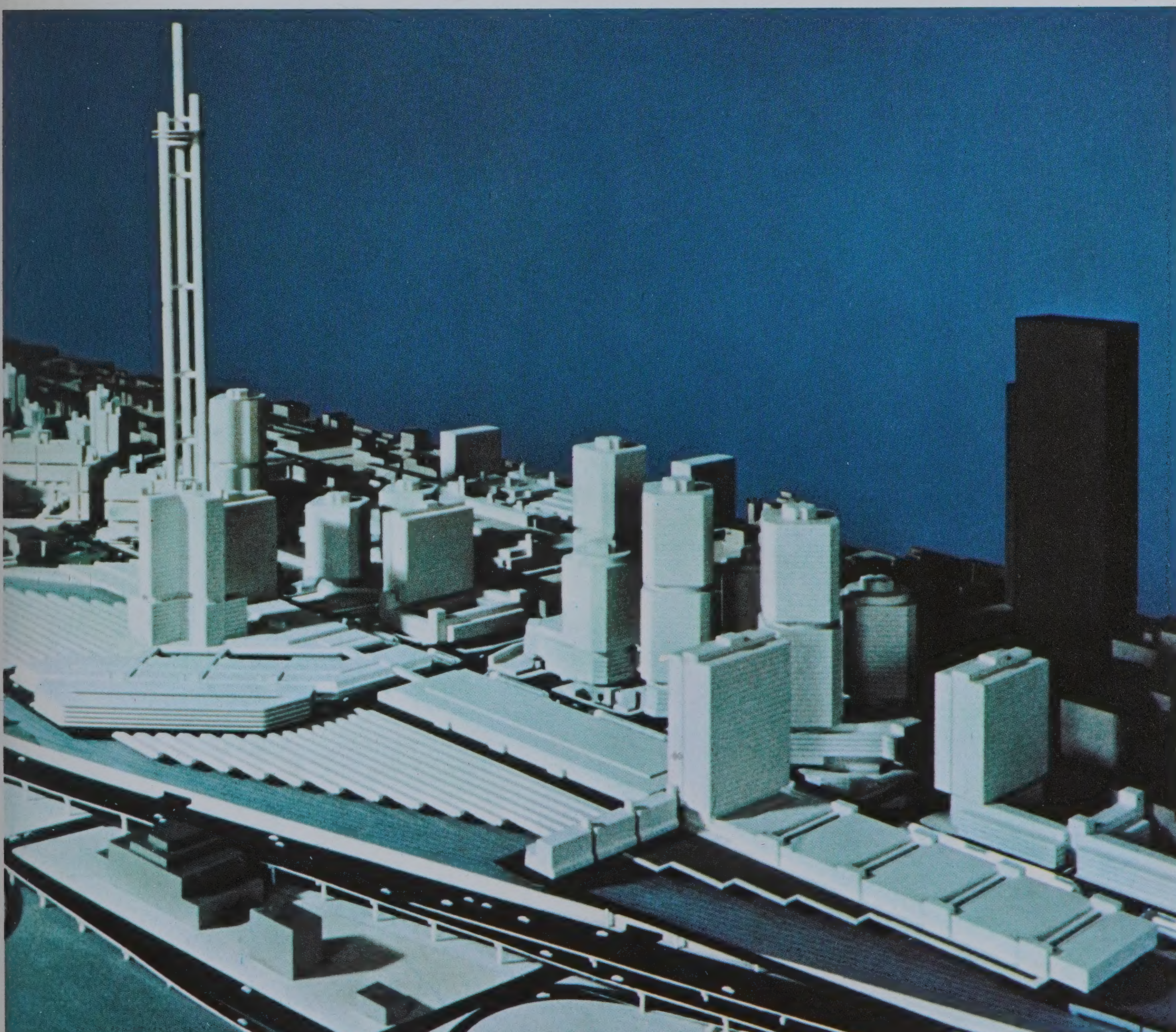

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